

**MINUTES OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON  
Friday, February 18, 2000  
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85067-3910. Mr. James Jenkins, Chairman, Arizona State Retirement System Board called the meeting to order at 9:00 A.M., M.S.T.

The meeting was teleconferenced to the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710-3776.

**1. Call to Order; Roll Call**

Present: Mr. Jim Jenkins, Chairman  
Dr. Chuck Essigs, Vice Chairman  
Mr. Jim Bruner  
Dr. Merlin DuVal  
Mr. Alan Maguire  
Mr. Norman Miller  
Mr. Karl Polen  
Mr. Ray Rottas

A quorum was present for the purpose of conducting business.

**2. Approval of Minutes of the January 21, 2000, Regular Meeting of the Arizona State Retirement System Board**

**Motion:** Dr. Merlin DuVal moved to approve the minutes of the January 21, 2000, Regular Meeting of the Arizona State Retirement System Board.

Dr. Chuck Essigs seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

### 3. Board Approval of Consent Schedule

**Motion:** Mr. Norman Miller moved that the ASRS Board approve the Retirements, Refunds, and Death Benefits; System Transfers; Applications and Agreements between Employers and the Arizona State Retirement System; and Approval of the Extension Contract with Mellon Trust, Master Custodial Bank.

Mr. Ray Rottas seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

### 4. Presentation, Discussion and Appropriate Action Regarding the Fiscal Year 1999 Audit Findings and Annual Report

**Motion:** Dr. Chuck Essigs, Audit Board Committee Chairman moved that the ASRS Board Accept the Fiscal Year 1999 Audit Findings and Annual Report.

Dr. Merlin DuVal seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

### 5. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance for the Period Ending December 31, 1999

Mr. Terry Dennison, Principal, Mercer Consultants, gave a presentation regarding the Investment Performance of the ASRS for the period ending December 31, 1999.

#### *Total Fund Performance for Periods Ending December 31, 1999*

	<b>Qtr</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Total ASRS Fund</b>	11.3%	17.3%	19.8%	19.9%	14.3%
<b>Benchmark*</b>	9.8	14.0	18.0	18.4	13.3
<b>TUCS Public Fund Median</b>	10.4	15.3	15.9	17.1	12.7

\*1/1/89-12/31/91 is 60% S&P 500/40% LB Aggregate

1/1/92-12/31/94 is 50% S&P 500/40% LB Aggregate/10% EAFE,

1/1/95-6/30/97 is 45% S&P 500/40% LB Aggregate/15% EAFE and,

7/1/97-Present is 50% S&P 500/35% LB Aggregate/15% EAFE.

***Performance vs. Benchmarks for the 3 Years Ending December 31, 1999***

	<b>Return</b>	<b>Assumed ROR</b>	<b>Std. Dev.</b>	<b>Assumed Std. Dev.</b>
<b>Total ASRS Fund</b>	19.8%	9.3%	13.0%	10.2%
<b>Benchmark</b>	18.0		11.6	
<b>Domestic Equity</b>	26.5	10.2	19.3	16.2
<b>S&amp;P 500</b>	27.6		18.5	
<b>Domestic Fixed</b>	5.7	7.0	4.2	7.0
<b>LB Aggregate</b>	5.7		3.7	
<b>Intl. Equity</b>	20.5	10.6	22.5	19.7
<b>EAFE</b>	16.1		20.8	

***Performance vs. Benchmarks for the 5 Years Ending December 31, 1999***

	<b>Return</b>	<b>Assumed ROR</b>	<b>Std. Dev.</b>	<b>Assumed Std. Dev.</b>
<b>Total ASRS Fund</b>	19.9%	9.3%	10.2%	10.2%
<b>Benchmark</b>	18.4		9.1	
<b>Domestic Equity</b>	27.3	10.2	14.9	16.2
<b>S&amp;P 500</b>	28.6		14.4	
<b>Domestic Fixed</b>	8.3	7.0	5.3	7.0
<b>LB Aggregate</b>	7.7		4.3	
<b>Intl. Equity</b>	15.3	10.6	17.6	19.7
<b>EAFE</b>	13.2		16.0	

**6. Presentation, Discussion and Appropriate Action Regarding the Performance of Domestic Small Cap Equity Managers for the Period Ending December 31, 1999**

Mr. Terry Dennison, Principal, Mercer Investment Consulting Inc., reported on the following Investment Manager's performance for the Arizona State Retirement System: Axe-Houghton, Brandywine Investments, Dimensional Fund Advisors, and Mellon Capital Management for the period ending December 31, 1999.

Mr. Seth Lynn, President, reported on Axe-Houghton and Associates' performance for the period ending December 31, 1999.

	<b>Qtr</b>	<b>1 Year</b>	<b>Inception*</b>
<b>ASRS Net Return</b>	10.3	12.2	17.5
<b>Benchmark</b>	18.4	21.3	37.0
<b>Value Added</b>	-8.1	-9.1	-19.5

Benchmark: RUSSELL 2000 INDEX

\*Inception date of August 31, 1998

Mr. Adam Specter, Director of Client Services, and Mr. Henry Otto, Portfolio Manager, reported on Brandywine Investment Partners' performance for the period ending December 31, 1999.

	<b>Qtr</b>	<b>1 Year</b>	<b>Inception*</b>
<b>ASRS Net Return</b>	0.0	-1.5	8.2
<b>Benchmark</b>	18.4	21.3	37.0
<b>Value Added</b>	-18.4	-22.8	-28.8

\*Inception date of August 31, 1998

Mr. Rex Sinuefield, Chairman, Chief Investment Officer, and Mr. David Schneider, Regional Director, reported on Dimensional Fund Advisors' performance for the period ending December 31, 1999.

	<b>Qtr</b>	<b>1 Year</b>	<b>Inception*</b>
<b>ASRS Net Return</b>	2.3	10.9	20.4
<b>Benchmark</b>	18.4	21.3	37.0
<b>Value Added</b>	-16.1	-10.4	-16.6

\*Inception date of August 31, 1998

Mr. Richard Forster, Senior Vice President, and Ms. Susan Ellison, Senior Vice President and Director reported on Mellon Capital Management's performance for the period ending December 31, 1999.

	<b>Qtr</b>	<b>1 Year</b>	<b>Inception*</b>
<b>ASRS Net Return</b>	18.6	22.3	38.0
<b>Benchmark</b>	18.4	21.3	37.0
<b>Value Added</b>	0.2	1.0	1.0

\*Inception date of August 31, 1998

Mr. Alan Maguire was excused at 11:06 A.M.

## 7. Director's Report

Mr. Tom Finnerty, ASRS Legislative liaison, gave a brief overview of the current legislation. He explained that the next deadline for hearing Bills and Committees is March 10, 2000. Mr. Finnerty reported on the status of the following Bills:

- **HB 2007** retirement; legislative employees option transfer  
By Representative Richard Kyle
- **HB 2008** state employees; retirement contributions; withdrawal  
By Representative Richard Kyle

- **HB 2011** ASRS; benefit formula; 2.2 multiplier  
By Representative Debra Brimhall  
Passed the House on February 15<sup>th</sup> on a 52-4-4 vote, has been assigned to the Senate FIRE and Appropriation Committees.
- **HB 2079** ASRS; benefit formula; graded multiplier  
By Representative Debra Brimhall  
Passed the House on February 10<sup>th</sup> on a 45-14-1 vote, has been assigned to the Senate FIRE and Appropriations Committees.
- **HB 2238** ASRS; benefit increases  
By Representative Mike Gardner
- **HB 2243** deferred retirement; public officers; employees  
By Representative Wes Marsh  
Passed the House on February 16<sup>th</sup> on a 58-0-2 vote. To Senate.
- **HB 2531** retirees; health insurance subsidy; increase  
By Representative Verkamp & 4  
Passed Government Ops dpa January 26<sup>th</sup>. Awaiting COW.
- **SB 1128** retirement; lump sum benefit option  
By Senator Edward Cirillo  
Passed FIRE dpa January 19<sup>th</sup>. Passed Appropriations. From Rules pfc Awaiting Floor Action.
- **SB 1220** defined contribution plan; employee contributions  
By Senator Scott Bundgaard and Representative Mike Gardner  
Passed Senate February 3<sup>rd</sup> by a 28-1-1 vote, has been assigned to Government Ops.
- **SB 1320** ASRS; benefits; increases  
By Senator Kenneth Bennett  
Assigned to FIRE and Appropriations. Passed Appropriations. From Rules pfc February 17<sup>th</sup> to Consent Calendar.
- **SB 1333** PSPRS; membership; park rangers  
By Senator Edward Cirillo  
Passed FIRE on February 2<sup>nd</sup>. Passed Appropriations. Passed COW dpa February 15<sup>th</sup>. Failed in the Senate on February 16<sup>th</sup> on a 13-17-0 vote. Senator Guenther's motion to reconsider on February 17<sup>th</sup> passed. No date has been set for the vote.
- **SB 1384** ASRS: Burke litigation settlement  
By Senator Edward Cirillo  
Passed FIRE on February 9<sup>th</sup>. Passed COW on February 15<sup>th</sup>.

- **SB 1463** retired teachers; return to work  
By Senator Edward Cirillo  
Passed FIRE dpa February 9<sup>th</sup>. From Rules pfc February 15<sup>th</sup>.

Mr. LeRoy Gilbertson, Director, explained that there would be new reports added to the Operations portion of the Director's Report. The first report being the expected accomplishments for the ASRS, a verbal commentary on what the Executive Management Team plans to have completed in this calendar year. The report will be updated on a monthly basis along with a chart that will show the percentage completed for the year to date.

**8. Board Requests for Agenda Items.**

There were no Board requests for agenda items.

**9. Call to the Public.**

There were no requests to speak from the Tucson public.

Mr. Jim Seamans addressed the Board with concerns about the investment strategy of the ASRS.

**10. The next regular ASRS Board meeting is scheduled for Friday, March 17, 2000, at 9:00 A.M. in the Tucson Office, 7660 East Broadway Blvd., Suite 108, Tucson, AZ 85710-3776.**

**11. Adjournment of the ASRS Board.**

Mr. James Jenkins, Chairman, adjourned the February 18, 2000, regular meeting of the ASRS Board at 11:37 A.M.

Respectfully submitted,

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Stephanie Marries, Secretary                      Date

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LeRoy Gilbertson, Director                      Date